

## **PLANNING FOR THE FUTURE OF HEALTHCARE IN NORTH CAROLINA**

North Carolina state government spends an extraordinary amount of time and effort attempting to control healthcare costs in Medicaid, Health Choice, and the State Employees Health Plan. Efforts include limiting services and utilization, reducing provider reimbursement rates, prior authorizing selected services for payment, redefining services and provider qualifications, attempting to manage care in other ways, and the list of activities go on and on.

Each activity may appear to have some short-term impact, but many of these efforts simply shift costs from one area to another, or allow a provider to make up the revenue loss with some other allowable service, resulting in no actual net healthcare cost reduction. And where there is a successful reduction in cost for Medicaid, it simply results in a greater cost shift to commercial and self-insured consumers by hospitals and other providers increasing their costs and making their coverage less affordable. The reality is that the cost of maintaining governmentally operated programs is merely a symptom of the larger issue of our high costs healthcare delivery system.

We are failing to control healthcare costs because our efforts to control costs are not effectively applied in a coordinated or comprehensive approach. With almost every piecemeal effort, there is a normal reaction from the provider or consumer group that is being impacted by the change. The politics of healthcare make change very difficult because most proposed changes are focused on one group or healthcare activity that results in a significant political reaction. While access and quality of care will likely always be voiced as the issue and may be a real concern, the basic reality is that the flow of dollars is normally a major underlying issue.

In reality healthcare is big business that expends significant resources to protect and grow its revenues. Unlike healthcare of forty or fifty years ago, our system of care has become increasingly entrepreneurial and competitive with a focus on growing the business and expanding the revenues. This has resulted in continually increasing competition for business, particularly with respect to those services which provide the greatest profitability such as specialty services in cardiology, cancer, imaging and other diagnostic services.

Upon retirement after over 35 years of practice beginning in the early 1950's, a physician remarked that the biggest change in medicine over his career was that providers had moved from the practice of medicine to the business of medicine. This is evidenced in a number of ways. An annual CPA healthcare industry conference in North Carolina brings together hundreds of CPA's who work in the business of healthcare. Billboards, radio, and print advertisements are seen everywhere attempting to entice the healthcare consumer to seek their healthcare services in emergency departments, use their MRI's, engage home care providers, purchase medical equipment like motorized chairs, etc., etc.. Like any other business, providers seek to expand their operations to include services that increase their revenues and profitability. This is not meant to be a criticism of providers. They are operating as any business would in the environment that has developed over the years.

Healthcare delivery in the past was simply focused on meeting the needs of the patient and the community. Hospitals and physicians didn't advertise, they just worked to make certain they could meet the needs of the community when the need developed. Long-term care was available, but families made a greater effort to care for their elderly. It was a simpler time when market share was not the issue. Now, healthcare is big business.

The issue is further complicated by the fact that as we grow older, we utilize increasing amounts of healthcare services. North Carolina is among the fastest growing states in the nation, and we are aging rapidly. Over the next 20 years or so, our over age 65 population is expected to double. Our over age 85 population is expected to increase by 50%. With a growing population, the number of disabled individuals who require increased amount of healthcare services also grows. These services all cost money and if the federal and state governments continue to reduce reimbursement and services to achieve budget reductions, and the system does not transition into a more sustainable model, the costs will continue to shift to commercial and private pay if the providers are to sustain their operations in the traditional manner. As more of the burden is shifted to commercial and private pay, the fewer that will be able to afford insurance coverage. Perhaps that is when, as some economists predict, the healthcare economic bubble will burst and possibly result in a larger economic problem than we experienced in 2008.

In North Carolina, healthcare expenditures under the Medicaid program (\$12.9 billion) alone exceed cash revenues generated within the State from the agriculture industry (\$9.4 billion per the Department of Agriculture website). Based upon information published by Kaiser State Health Facts, over 10% of North Carolina's jobs are in healthcare. A report from the NC Office of Rural Health and Community Care states that healthcare providers are among the top five employers in 62 of the State's counties. The EconPost reports that healthcare is the fifth largest segment of the North Carolina economy. Nationally, it is reported that healthcare makes up 17.3% of the Gross National Product (GNP) and growing.

The fact of the matter is that the healthcare system we now have continues to grow and compete for revenues and business. It is a big business and job creator in North Carolina, but financially sustaining the healthcare industry is increasingly unaffordable and cannot be financially sustained by government and participating employers over the long term. Efforts in Washington to get some handle on the national budget and debt will undoubtedly further complicate the issue as reductions there will likely force continued efforts to cost shift to other payers. So the question is, how do we transition our healthcare delivery system into a model that we can afford and sustain over the long-term while avoiding change that will destabilize access and quality of care?

While we spend a lot of time attempting to control costs, we have not developed a real vision for how we need to change the system as a whole to establish the access and quality of care we desire while having a system that is financially sustainable. The creation of this vision of a system of care is critical to achieving this goal and providing healthcare providers and consumers with a destination to where we must take the system of care. Establishing this vision or destination will move us from an ineffective piecemeal approach

for attempting to control healthcare costs to a comprehensive plan that provides a clear overall vision and approach for achieving our goal.

Many of the laws, rules, and processes for governing our healthcare system were designed and implemented in a simpler time before our system of healthcare became such big business. If we want to create an affordable and sustainable healthcare system, changes will be necessary, but should not be piecemeal. Changes should all be connected to a comprehensive plan to achieve our healthcare system vision. Establishing the vision will then allow us to look at all aspects of our healthcare system to determine what changes must be made to reach the desired destination.

How do we better engage the consumers in their health and healthcare? What should be our core priorities in developing a sustainable system of care? How do we incentivize providers to focus on achieving health goals for their patients rather than maximizing the quantity of services? How do we better utilize our healthcare infrastructure while avoiding the competition that drives healthcare costs? How do we maximize our healthcare workforce, better utilizing the capabilities of less expensive mid-level providers? How do we better manage the costs associated with long-term care and our aging population? These are just some of the questions that must be considered in developing the vision for an affordable and sustainable healthcare system for North Carolina. This is not focusing on one segment or another of the healthcare industry, but truly establishing an overall vision for a system of care that includes all critical elements of an affordable and sustainable system of care.

Some may argue that competition is good, that it drives down costs. This is so when the consumer is paying the bill and concerned about cost. But the costs of our healthcare system are most frequently paid directly or indirectly by third parties and consumers don't normally worry so much about costs. This may particularly be true in the case of Medicaid consumers who have extremely low co-pays under federal rules.

Healthcare consumers want the best healthcare for themselves and family and costs are not the primary concern. They have confidence in the healthcare provider and will normally accept any care recommendations with little question. What other business is there, particularly one that makes up almost 18% of our nation's GNP, that the vendor tells the consumer what they are going to buy and the consumer agrees generally without consideration of the cost? This makes the issue of consumer engagement a key element in the creation of a sustainable healthcare system.

If we truly want to address the issue of affordability and sustainability of healthcare in North Carolina, we have to begin thinking on a much broader level than rate reductions, service eliminations, and piecemeal fixes. It can't just be a focus on Medicaid, Health Choice or the State Employees Health Plan. We must develop a vision for our healthcare delivery system and then every modification to law, reimbursement process, policy, must be focused on achieving that vision.

North Carolina possesses the knowledge, talent, and desire to find the solution to this problem and set a new standard for the nation. Either we work together to establish a vision and strategy to achieve this goal, or ultimately the current system will be

systematically starved to death financially and we will end up with whatever healthcare system we realize through that process. In conversation with healthcare industry leaders and others across the State, they have indicated that they tend to agree with this analysis. They may not always like it, but they agree.

While certainly not limited to this list, the vision for an affordable and sustainable healthcare system for North Carolina must include:

- A strategy for educating North Carolina residents on the importance of a healthy lifestyle and management of chronic conditions to improve their quality of life while reducing healthcare costs
- A strategy for establishing greater “skin in the game” for North Carolinians to be more cognizant of the cost of healthcare
- A strategy for shifting the reimbursement for healthcare from paying for quantity to paying for quality and outcomes
- A strategy for eliminating the duplication of costs and efforts in the system by shifting from a siloed approach to care to a real system of care
- Clearly identifying the core healthcare services and prioritizing what is critical that we protect in the system and what is helpful, but not necessarily critical, that may be modified or eliminated from our healthcare programs
- Reviewing and evaluating existing laws, rules, regulations, and provider reimbursement processes to determine what needs to be changed to accomplish the vision for a sustainable healthcare system
- A strategy for how we deal with an aging population and the increased demand for healthcare and long-term care services

Bottom line, our current approach to controlling costs is piecemeal with no real destination in mind. We will never accomplish our mission and have affordable healthcare if we don’t have a goal at which to aim.

This presents both the critical importance and urgency for a organized effort involving leaders across the State to come together to examine the current state and sustainability of our healthcare system and develop a vision of how that system needs to be transformed to achieve an affordable and sustainable system for the future. North Carolina is well positioned to be a national leader in this effort. Community Care of North Carolina is recognized for its innovation in establishing the medical home and continues to look for ways to enhance its impact on quality, access, and cost. We have strong academic medical centers, a large bio-tech industry, and hospitals that are recognized among the best in the nation. Organizing this effort in a non-political environment with individuals dedicated to establishing a vision and identifying solutions will be the first step in achieving the goal of an affordable and sustainable healthcare system for North Carolina.

This presentation was written by  
Lanier M. Cansler  
Former Secretary of the NC Department of Health and Human Services